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Farm Equipment Retailing in South Dakota

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FARM EQUIPMENT RETAILING IN SOUTH DAKOTA

By

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Thesis Advisor

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CHAPTER I

INTRODUCTION

Purposes of the Study

The purpose of this study is to describe and analyze the marketing channels for farm machinery to determine: (a) what the pattern of distribution for farm machinery is at the present time in South Dakota; (b) how well the distribution system is functioning in regard to the problem of farm income maximization; (c) what the problems of the South Dakota implement dealers are and their resulting effect on farm income; and (d) improvements in distributing farm machinery that could benefit both dealers and farmers in South Dakota, as revealed through a questionnaire study of the implement dealers in South Dakota.

Importance of the Problem

In 1953, farmers in the northern plains area, which is primarily a small grain and livestock area, had machinery depreciation expense of 24% of their total production expense; however, this does not include machinery expansion or maintenance.[1] This suggests that here is an important area for investigation in the effort to control farm expenses. From an efficiency standpoint this may not provide the farmer with enough machinery for efficiency. Assuming this to be true it would benefit the farmer to have an improved marketing system so that

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[1] *Farm Cost Situation*, U.S.D.A., Agriculture Research Service, October, 1954, Page 7.

retail prices of machinery could be reduced. If it were assumed that farmers are efficient at their present 1955 level, it would increase farm income to improve the marketing efficiency and lower machinery costs.

The consideration of maximizing farm income is important because, in 1955, farmers were caught in a price-cost squeeze. Prices that farmers received for their products had gone down without a corresponding decrease in the cost of those items they need for their farming operation.[2] This price-cost squeeze has not only affected farmers directly through lower income, but it is also beginning to affect the establishments on which they depend in their daily farming operations.

The farm machinery dealer is caught in a price-cost squeeze of his own. The prices he has to pay for machinery from the manufacturer have increased five to seven percent from some major companies during the year 1955, while the prices he receives have not increased accordingly, because of the decline in the farmer's ability-to-pay.

Agricultural mechanization is at its highest point in history. Purchases of machinery and equipment have been at high levels since 1940, and there has been an annual increase in the numbers of tractors and most principal machines since then. (See Figure I)

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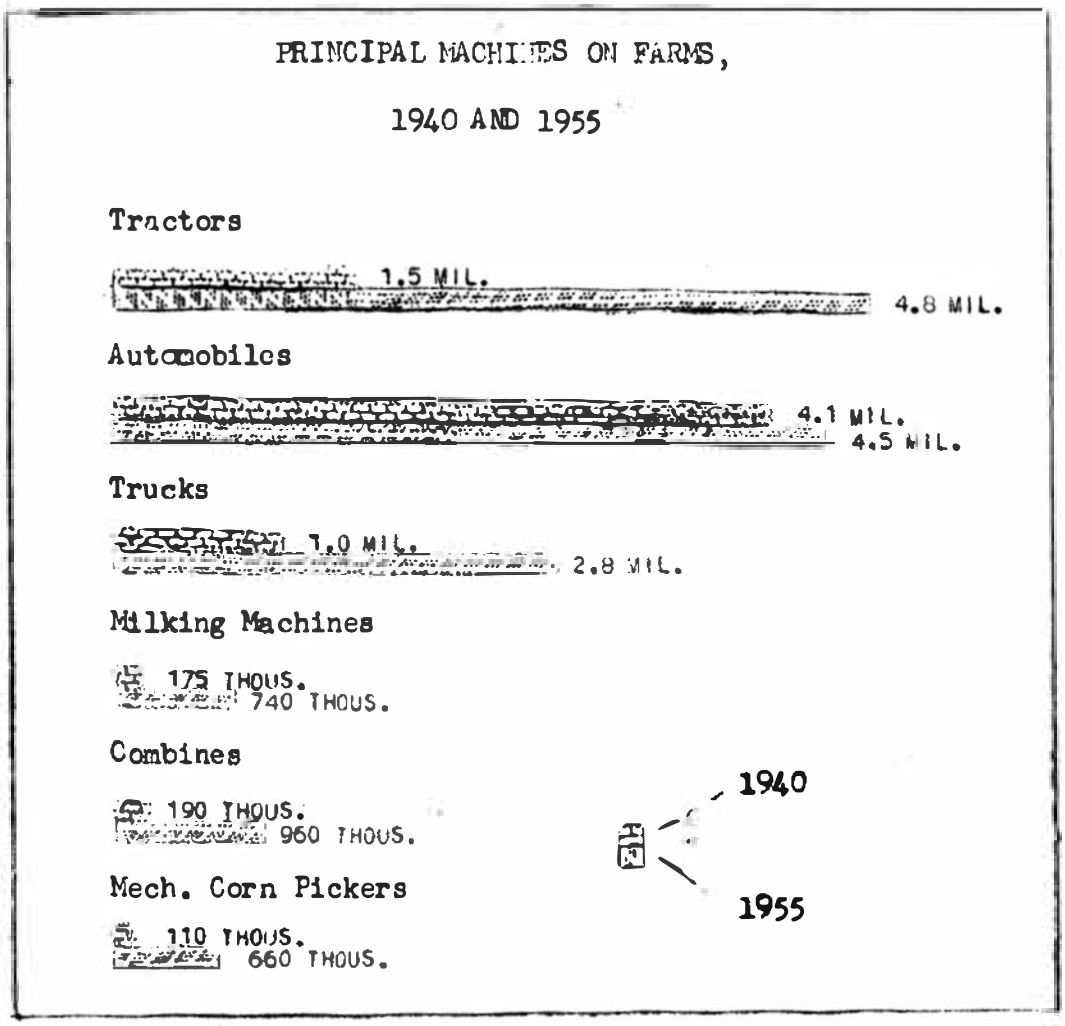
[2] *Ibid.*, Page 1.

Figure I[3]



Machinery purchases in the past were made primarily for the purpose of replacing man power or animal power. However, a proportionately larger part of the purchases in the future probably will be for the purpose of replacement of existing machines and additions to the farmers' machinery line. Additional mechanization will come about largely as a result of technological developments.

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3 Farm Cost Situation, U.S.D.A., Agriculture Research Service, November, 1955, Page 10.

As a result of the vast increase in mechanization, the farmer has become more and more dependent on the machinery dealer for machinery, repair parts and service. The dealer is also dependent on the farmer, and any price fluctuation affecting one will affect the other.

In 1955 there were approximately 640 retail equipment dealers in South Dakota. After a period of "good times," they are now finding their incomes dropping rapidly and, in some cases at least, dealers are selling out or closing shop. In the past two years, approximately 13.9% of the dealers went out of business. Of these, more than half went out completely--the remainder droppod their machinery line and are now concentrating on some other form of business such as autos, hardware, service stations, garages and others.

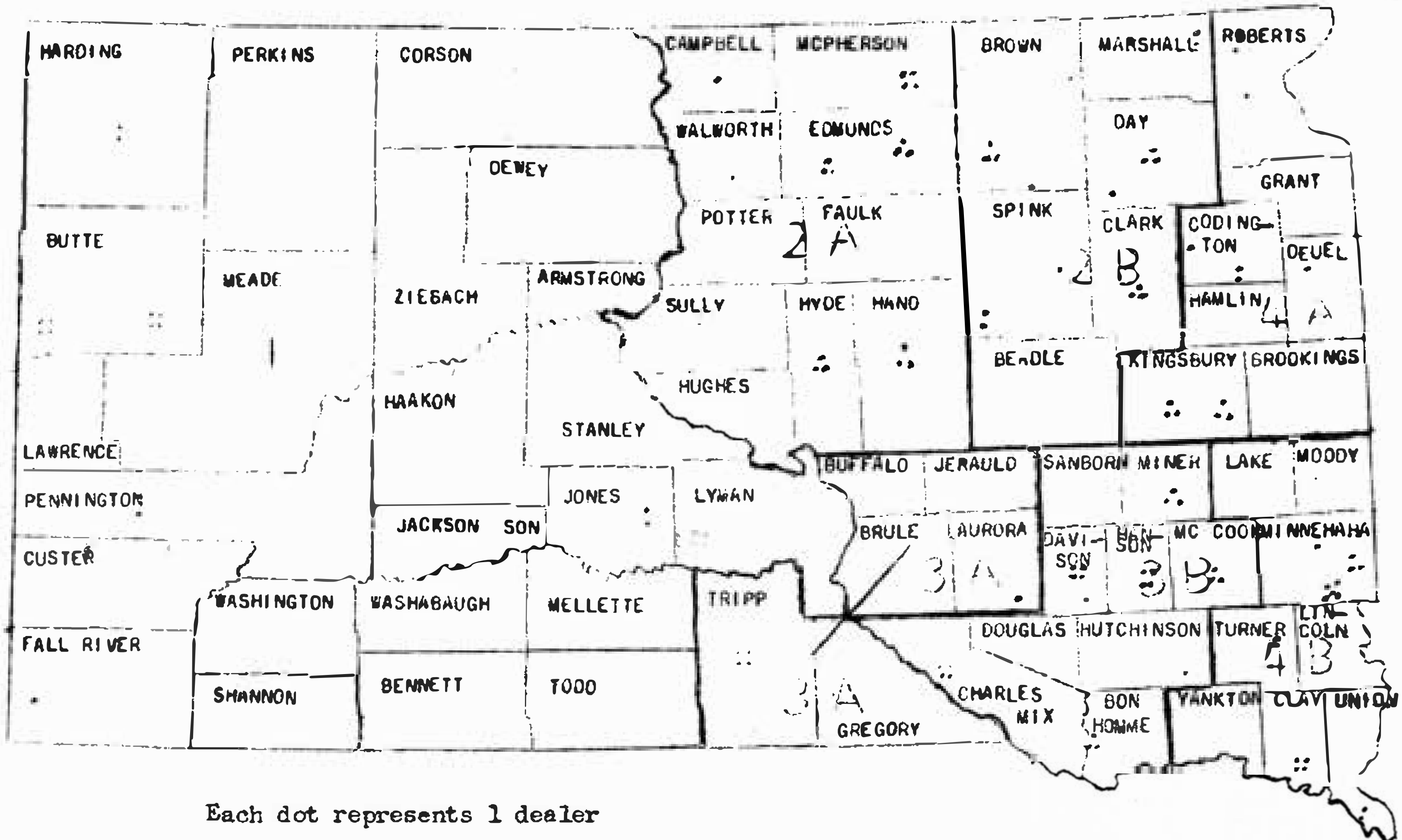
<u>Source of Data</u>

The basic data for this report were obtained from personal interviews with machinery dealers throughout the state. Figure II indicates the location of the dealers interviewed.

Each dealer was visited by an interviewer during the summer of 1955. The interviewers followed a prepared questionnaire schedule.

Determining the number and location of farm machinery dealers in the state proved to be a difficult problem. Two lists of machinery dealers were used. First a list of dealers was obtained from the Division of Taxation in Pierre, South Dakota. This list was

Figure II. Location of Farm Implement Dealers Interviewed and Economic Areas in South Dakota, 1955



Each dot represents 1 dealer

Large numbers indicate economic areas

combined with one from the South Dakota Implement Dealers Association. A total of 911 dealers was obtained for the list from which the sample was drawn. This total of 911 dealers for the state was reduced to 642 dealers when the interviews showed that 19.6% of the dealers in the sample did not, or according to townspeople, never did exist; and 9.8% had gone out of business.

The sample was first stratified by economic areas.[4] These dealers were then stratified further into towns which had over ten dealers per town, six to ten dealers per town and one to five dealers per town. The purpose of this was to give a more uniform distribution of dealers throughout the state.

An overall sample of 16.6% of the 911 dealers was selected. Among towns having more than ten dealers, one out of two towns was selected and one out of three dealers was interviewed. Among towns having from six to ten dealers one out of three towns was selected and one out of two dealers was interviewed. Among towns having one to five dealers, one out of six towns was taken and all dealers were interviewed. This resulted in a list of 163 dealers to be interviewed. Of these dealers, 32 proved to be non-existent and 16 had recently gone out of business; there remained 115 dealers, all of whom were interviewed.

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[4] Economic areas represent groupings of counties within a state. It is based on counties having similar agricultural, demographic, climatic, physiographic and cultural characteristics. These areas were set up by the Census Bureau in 1950.

CHAPTER II

DESCRIPTION OF MARKETING CHANNEL AND DEALER PRACTICES

In 1955, the machinery market outlet was composed of approximately 640 retail dealers. The number of dealers increased rapidly after World War II but has been declining in the last few years. The industry is characterized by a large number of relatively small dealers retailing machinery purchased from a few major manufacturers. The machinery goes from the manufacturer to a branch house or wholesaler and then to the dealer.

The maintenance of an efficient retail marketing structure should be of concern not only to the dealers themselves but also to the farmers who buy the machinery from the dealer. If the present trend of business failures continues many of the dealers, especially those who established their businesses since World War II, will disappear.[5] Some of these dealers are probably inefficient managers, and others, while they may be efficient managers, are attempting to operate in the face of unfavorable locational developments. From the standpoint of their own future income and welfare, as well as from the standpoint of the overall cost of distributing farm machinery such dealers should close up shop. However, as more dealers quit, the amount and convenience of the service on machinery

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[5] Ten percent of the sample of dealers suspended operations during 1955.

that has been available, will diminish because dealers will be farther apart.

The interview revealed that there were nine major lines of machinery being sold in South Dakota. There were also many minor lines handled by these dealers, but those compose only a small percentage of total sales, and will not be discussed.

<u>**Size of Firms**</u>

Most of the firms retailing farm equipment are relatively small, with only 17% having gross sales greater than $250,000 and only 2.1% having gross sales greater than $500,000. (See Table I)

Considering the dealers as small, medium, large and very large, areas 1 and 4A are the only two with very large dealers. Economic Area 3A has the fewest dealers in the state and 75% of the dealers in that area have gross sales over $100,000 followed by Area 1 with 69.7% of their dealers having gross sales over $100,000.

In the more heavily populated areas the size and trade areas of the dealers tend to be smaller in size. The average radius of the trade areas for implement dealers in South Dakota is 32.5 miles. (See Table II)

The line having the largest number of retail outlets in South Dakota is <u>International Harvester Company</u>, followed by <u>John Deere Company</u> and <u>Case Company</u>. (See Table III)

TABLE I. Number of Farm Machinery Dealers Sampled in Designated Volume Classifications By Economic Areas of South Dakota, 1954

Gross Sales (000) dollars	Economic Areas 1	2A	2B	3A	3B	4A	4B	Total
0 - 100	4	12	8	1	10	5	6	46
100 - 250	7	3	2	3	9	4	4	32
250 - 500	1	2	3	0	2	3	4	15
over 500	1	0	0	0	0	1	0	2
	13	17	13	4	21	13	14	95

TABLE II. Average Radius of Trade Areas of South Dakota Farm Machinery Dealers by Economic Areas, 1955

Area	Miles
1	60.2
2A	34.4
2B	28.5
3A	54.0
3B	24.5
4A	20.0
4B	20.0
State Average	32.5

TABLE III. Percentage of Sample of Machinery Dealers Selling the Different Brands of Farm Machinery in South Dakota, 1955

Name of Manufacturer	Percentage of Dealers
International Harvester	28.4
John Deere	19.3
Case	12.8
Allis Chalmers	11.1
Minneapolis Moline	7.3
Oliver	7.3
Ford	6.4
Massey Harris	5.6
Caterpillar	1.8
	100.0

Break Even Point for Dealers

Estimation of the break even point is based on the arbitrary assumption that the average dealer could earn $4000 a year elsewhere from his services and investments, and that he is not really breaking even unless he earns this much. To maintain this level each dealer should have gross sales of approximately $175,000.[6] The following table shows what volume of business each farm must average in an area to maintain the present number of dealers.

Farms in the area are at the present time spending $1142 per farm for new machinery, plus additional expenditures for repairs and service.[7] It is possible that in areas 1, 3A, 4A and 4B the repairs and service expenditures may bring this figure to the necessary amount. However, in areas 2A, 2B and 3B the required amount is so much greater than that of new machinery purchases, it would be hard to attain. This is supported by the number of low volume dealers in these areas. (Table I)

This may be an indicator that the industry in South Dakota has over-expanded, especially in some areas, and at the present time are unable to make a profitable return from their business. Efficient managers may break even on lower volumes and the poor managers may not break even on a higher volume. However, these conditions tend to point out a limiting factor in the volume of business attained by each dealer in South Dakota.

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[6] Based on national averages, National Retail Farm Equipment Association, Cost of Doing Business, St. Louis, Mo., 1954.

[7] Agricultural Research Service, loc. cit.

TABLE IV. Number of Farms per Dealer in South Dakota by Economic Areas and Volume of Business by Each Farm Necessary to Maintain Present Dealers at $175,000 level, 1955

Economic Area	Number Farms per Dealer	Average Farm Expenditure Necessary to Maintain Present Number of Dealers at $175,000 Level
1	106	$1650
2A	66	2650
2B	86	2035
3A	144	1215
3B	64	2735
4A	137	1280
4B	120	1460

Age of Firms

Most of the firms in the state originated during or right after World War II, when machinery sales were increasing steadily. Of the dealers interviewed 19.3% were less than 5 years old, 59.1% were between 5 and 15 years old, and 31.6% were over 15 years old.

The firms that were established between 1940 and 1950 (59.1%) began when farmers were receiving high prices for the goods they marketed. These dealers also had a boom following World War II when farmers were buying large amounts of machinery because of the inability to obtain machinery during the war, and the expansion in the use of machinery. As a result of these two factors, there was a strong demand for machinery, and expansion in machinery retailing was rapid. Dealers that originated since 1950 (19.3%), however, are finding it much more difficult in getting established because of the decline in the prices that farmers receive for their products and the rising cost of machinery.

Franchise

The types of franchises granted by the various companies vary considerably. The two most commonly used are one-year and continuous contracts. Seventy-one dealers had one-year franchises and twenty-nine dealers had continuous contracts. The continuous contracts were more prevalent in one line of machinery. However, the dealers with continuous contracts expressed more concern over security than did those with just a one-year contract. Eight dealers hold other types of franchises which varied from two to five years. All of these dealers felt fairly secure with their dealerships.

None of the contracts being used give the dealers any power in dealing with the manufacturer. The prices that the manufacturer quotes is the final price and dealers cannot bargain outside of their normal volume discount.

Dealer Purchasing

Purchasing by the retail dealers is done in a somewhat standard manner throughout all lines. The dealer makes an annual purchase, usually during the winter months, from a regional salesman or blockman. The regional salesman or blockman works out of one of the branch houses located in an area. The dealer may supplement his annual purchase during the year by ordering single pieces of machinery or repair parts.

Dealers state that through high pressure sales, the manufacturers tend to load dealers with too much machinery. Dealers complained of this in all but a few lines; however, it was most prevalent in one of the larger lines. At the end of the year the dealer receives a dividend or discount from the manufacturer on the volume of machinery that he sold during the year. Many of these dealers sell at a price that enables them to build up a large discount and then consider this as the net profit for the year.

The delivery of the annual purchase to the dealer is made by car-load lots directly from the manufacturer. The smaller supplementary purchases are delivered to the dealer via the branch house where the large shipments are broken into smaller lots for distribution.

<u>Sales</u>

The implement dealers in South Dakota sell many things. Some of these are new and used machinery, repair parts, service, heavy hardware, autos, trucks, tires, building supplies, tools, wire, twine, road equipment, milking machines and various other articles used both on and off the farms.

In order to determine the relative importance of farm machinery to the dealers, the dealers were first asked what percentage of their gross sales was derived from the sale of new farm machinery, used farm machinery and repair parts.

Of 80 dealers responding, 42 said that less than half of their gross sales came from new machinery. (See Table V)

The volume of business done in new machinery, used machinery and repair parts varies greatly between dealers. New machinery is the largest source of gross sales, followed by repair parts and used machinery respectively.

Table V shows that many dealers did not know how much of their gross sales came from each of the main sources. Many dealers will not consider any profit on new machines until the trade in has been sold. They will take a used implement in trade for a new machine at a difference in price of the dealer's wholesale cost of the new machine. Actually the farmer pays the wholesale cost of the machine plus his old machine. Thus all of their profit is in the used machine which they then resell. The problem of estimating the cost of repairs on the old machine makes for difficulties in accounting and determining profit.

Even if the dealers were able to keep accurate books on the repairs of old machinery, they might not be able to resell it for enough to make a profit because of the market price for that particular machine.

Used Machinery and Repair Parts

Used machinery has been moving faster as a result of the price cost squeeze of farmers. The dealers interviewed said that the turnover of used machinery was faster. Also, less of it reached the scrap pile.

TABLE V. Source of 1954 Gross Sales for Sample of South Dakota Implement Dealers, 1955

% from New Machinery	Dealers	% Dealers	% from Repair Parts	Dealers	% Dealers	% from Used Machinery	Dealers	% Dealers
0 - 25	12	11.0	0 - 15	31	28.4	0 - 15	42	38.5
26 - 50	30	27.5	16 - 30	35	32.1	16 - 30	28	25.7
51 - 75	38	34.9	31 - 45	7	6.4	31 - 45	1	.9
76 - 100	0	0.0	over 45	3	2.7	over 45	1	.9
Don't know	29	26.6	Don't know	33	30.4	Don't know	37	33.9
	109	100.0		109	100.0		109	100.0

Many dealers (51.4%) discuss used machinery prices with each other. The purpose for discussing and exchanging prices is primarily a check on farmers when they come to a dealer and tell him what they were offered for a used machine at some other dealer. Another purpose of this discussion is to check prices being given in other lines of machinery.

Parts sales also increased. This is primarily the result of less new machinery purchases and a tendency to make old machinery last longer. One dealer said that he was taking advantage of the situation by specializing in parts. Approximately 75% of his gross sales were derived from repair parts. Two dealers derived over half of their gross sales from repair parts.

The finding of proper parts for a farmer is another problem that most dealers confront. Farmers fail to write down or correctly remember parts numbers. Twenty-three dealers said that they would like to see model numbers on all machines stamped into the metal rather than just painted on. They claim the numbers wear off by the time parts are needed. The stamped number would enable the dealer to tell what machine it is and then he would be able to work from there. This would save dealers time and enable them to give better and faster service.

Services

All of the dealers interviewed provide services to the farmer through their repair departments. Many of them, however, are operating their shops at a loss and the shops must be supplemented from the sales and parts departments. Dealers that kept separate books on each department, however, were able to operate their shops at a profit. These dealers may charge a little higher service fee at first, but are able to provide faster and better service. They are able to get better qualified mechanics and better repair equipment, and eventually lower their service rates.

Dealers also provide service to the farmers in guaranteeing new and used machinery. Certain line dealers had trouble in getting the manufacturer to reimburse them for the repairs of faulty new equipment but the service was always provided to the farmer. Guaranteeing used machinery is purely the dealer's risk, but it does help in used machinery sales and with proper knowledge of machinery can be reduced to little or no risk.

Most dealors also try to work with farmers in determining the size and type of machinery that the farmer needs. Sixty four (58.7%) of the dealers try to determine machinery type by the farmer's soil type, size of farm and the use that the farmer wishes to make of the machine. The remaining 45 dealers feel that a farmer knows best what he needs, and do not make an attempt to determine what machine a farmer should have. They sell the farmer what he wants.

<u>Audit and Inventory</u>

The dealers were asked how often they took audits and inventories. All of the dealers interviewed took inventories at various times and all but 20 had an audit at various times. (See Table VI)

TABLE VI. Number of Dealers Sampled Reporting Specified Periods of Audit and Inventory, South Dakota, 1953[8]

Period	Audit	Inventory
Annual	47	96
Semi Annual	1	1
Quarterly	24	1
Monthly	9	6
Continuous		4
	81	108

The dealers that audit their books themselves are actually not having an audit. They are merely rechecking or summarizing the books. An audit can only be made by someone who has nothing to do with keeping the books for the firm. Dealers that had frequent audits and inventories seemed to know their financial condition better. They were able to give answers as to gross sales much faster and more accurately than those that had more infrequent audits and inventories.

Price Cutting and Scalpers

Competition is stronger between dealers of the same line than it is between lines. The dealers were asked who was their strongest competition. Fifty-six percent answered that their own line dealers were the toughest to compete against.

When asked why dealers in the same line were more competitive,

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[8] Of the sample of dealers interviewed, 20 dealers answered that they never had an audit and 2 dealers did their own audit.

they answered that it was because when the farmer decided to purchase, he first decided what line of machinery he wanted. Then he went to different dealers of that line and compared prices, pitting dealer against dealer on trade in allowances and prices. Seventeen dealers said that as a result of the farmers "shopping," many dealers will cut prices a considerable amount just to get the sale.

Seven dealers complained of "scalpers." Scalpers are people who sell machinery at just a small amount above cost. They do not maintain parts or service departments and usually do not have an established location. They are actually mobile dealers who sell machinery only and not service.

Company Owned Stores

Thirty-nine percent of the private dealers feel there is a trend toward company owned stores. These dealers feel that it is impossible to compete with company owned stores because company owned stores do not have the capital investment in machinery. Company owned stores are also able to hold on to machinery for longer periods of time if it does not sell right away. As a result, company owned stores are able to offer better prices to the farmer.

The one company owned store manager who was interviewed said that these beliefs are untrue. He claimed that the company requires the managers to maintain a competitive price level and do not let them undercut private dealers' prices. The manager also maintained that the company would set up stores only in areas where a private dealer could not be found. If, however, someone wanted the franchise the company would grant it and sell its stores.

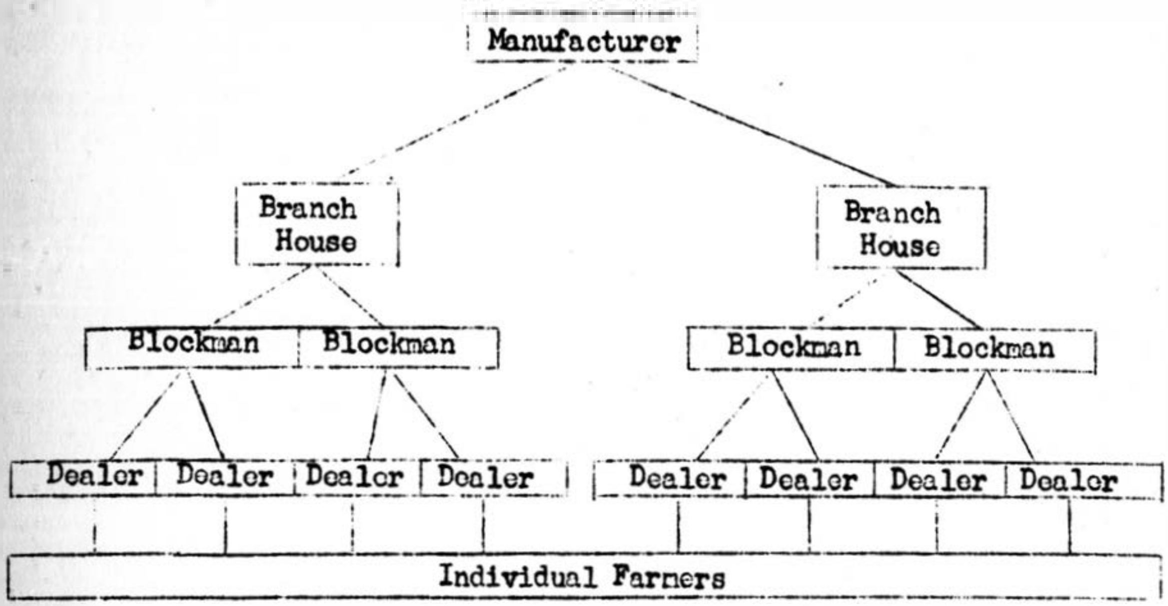
In the short run, this may be desirable for the farmers because it would probably result in lower machinery prices due to the efficiency of vertical integration. In the long run, however, it would be easier for the manufacturers to fix the prices at high levels, possibly even higher than at the present time.

If this should develop, as these dealers believe it will, the bargaining position of farmers when buying their machinery will probably decrease. Under existing conditions, the farmer deals with an independent dealer who operates on a margin above the cost of the machinery from the manufacturer. A farmer, by shrewd bargaining, can and does decrease the amount earned by the dealer. Given a situation where the farmer bargains directly with the manufacturer through their retail outlets, it may be more difficult for the farmer to lower the retail margin. This appears to be true because large firms find it difficult to formulate general policies which are sensitive to all local conditions, whereas small dealers are local businessmen concerned with local problems.

The Machinery Industry

No data were available as to size and number of manufacturers involved in the manufacture of farm machinery. However, the typical channel of distribution is shown by the following diagram:

Figure III. Pattern of Machinery Distribution in U.S. in 1955[9]



Greatest Dealer Problems

The dealers indicated that during 1955 their greatest problems were those of credit and the interpretation of the South Dakota sales tax laws. These will be discussed in the following chapters.

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[9] As described to interviewer by dealers in South Dakota.

CHAPTER III

CREDIT

Because of the vast expansion of mechanization in recent years, farmers have had to finance many purchases of machinery. Banks, finance companies, and implement companies extend credit for such purchases through the dealer. In many cases the dealers will finance purchases themselves. Dealers also allow farmers to have open accounts for service or repair parts.

Although machinery loans create a problem to the dealers it is not as severe a problem as that of open account credit.

Open Account Credit

In a recent meeting of dealers in the southeast section of the state 53 dealers indicated that they had $539,000 outstanding on open accounts.[10] This amounts to an average of approximately $10,000 per dealer. This open account credit is extended by dealers to farmers for servicing and repairing of machinery and the purchasing of parts. This credit is interest free and no rates or due dates are placed on it. The farmers who pay their accounts regularly are an asset to these dealers but some farmers will charge and let the dealer carry them even though they are able to pay cash.

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[10] Regional South Dakota Implement Dealers Meeting, Sioux Falls, South Dakota, September 29, 1955.

This is an important factor in raising machinery costs to farmers. Steps being taken to remedy this problem are explained below.

Minnesota Plan

At this meeting, dealers gathered to determine a solution for this problem in order to get their working capital up. The solution discussed was a plan that dealers around Fairmont, Minnesota, first adopted. This is known as the "Minnesota Plan" and is for the sole purpose of collecting open accounts. The idea behind the plan is for all machinery dealers in an area (preferably 3 counties) to get together and agree to make all bills payable on or before the 10th of the month following the purchase with interest to be charged on all past due amounts. The interest rates are to be set higher than banks charge, in order to encourage farmers to borrow from banks rather than let the dealer carry them.

Credit Card

An important part of the program is the customer credit card which is kept in the dealer's files. This card provides space for terms of agreement when a farmer buys equipment, and space to record what the farmer wishes to do about his purchases in the way of repayment. Unless a farmer has such a card, credit is not granted to him. It is possible for the farmer to obtain a card by proving his intent to pay and agreeing to the conditions set down by the dealer. After a farmer has a card any employee in the store is able to grant him credit because the arrangements have been agreed upon by both the dealer and the farmer. If there is no card the employee must not grant the farmer credit on open account. This card may also be used by the dealers' association for a state-wide credit rating. It would provide dealers with the service of giving a credit rating on farmers that want credit.

Postdated Check

Another tool of the program is the use of a postdated check drawn on the customer's bank and paying to the order of the implement firm for the amount of the purchase. It is agreed by the farmer and the dealer that the due amount is to be paid on or before a certain date. Should the farmer fail to pay in the alloted time, the implement company presents the check for payment at the farmer's bank. If it is not then paid by the bank the instrument will draw interest at an agreed rate from the date due.

This plan has been in operation for over a year in southern Minnesota and since that time has expanded into 12 states and Manitoba and Ontario, Canada. Dealers who have used the plan report that their accounts receivable have gone down, some as much as $3000. This plan, however, requires almost full cooperation among the dealers because if one breaks away and offers a more liberal policy other dealers will be forced to go along to remain competitive.

The dealers in South Dakota have agreed to try the "Minnesota Plan," but they do not feel that this is a "cure all" to the open accounts problem. They do feel, however, that it is a step in the right direction.

Machinery Loans

Over half of the dealers interviewed indicated that half or more of their gross sales are financed. (See Table VII) Those loans are carried by the dealers themselves or are refinanced through banks, finance companies or implement companies.

Nine dealers said they would not finance any machinery purchases. (See Table VII) The farmers who purchase machinery from these dealers must make credit arrangements with someone else, either individuals, banks or finance companies.

TABLE VII. Percentage of Gross Sales Financed by Sample of South Dakota Implement Dealers in 1954

Percent of sales Financed	Dealers	Percent of Dealers
0 - 25	24	22.2
26 - 50	22	20.4
51 - 75	39	36.1
76 -100	14	13.0
Don't Finance	9	8.3
	108	100.0

Interest Charges

Dealers were asked what rate of interest they charged on machinery purchases. Of the dealers responding, one claimed he charged 5%, 17 claimed 6%, 21 claimed 7%, 35 claimed 8%, 15 claimed 9%, one claimed 10%, and 5 claimed 11%.

The dealers were then asked what the payments of the farmer would be if:

(1) He bought a \$300 piece of machinery, made a down payment of \$100 and paid off the balance in 12 monthly installments.

(2) He bought a \$300 piece of machinery, made a down payment of \$100 and paid off the balance in two semi-annual installments.

(3) He bought a \$2100 piece of machinery, made a down payment of \$700 and paid off the balance in 24 monthly installments.

(4) He bought a \$2100 piece of machinery, made a down payment of \$700 and paid off the balance in two annual installments.

The rate of simple interest actually charged has been calculated on the basis of the answers to these questions.[11] The results are given in Table VIII.

Several things may be noted from these data. Machinery dealers are not charging the interest rate they think they are. One dealer who said he was charging 6% was actually losing money on the principal, while another who said he was charging 9.2%, was actually charging 27%. Quite a bit of uncertainty was noted among

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[11] Simple Interest Rate = $\dfrac{2(\text{number of payment periods in a year})}{\text{original unpaid balance}} \times \dfrac{\text{Total amount of finance charge}}{\text{Total number of payments + 1}}$

TABLE VIII. Farm Machinery Dealers by Simple Interest Rate and Repayment Plans--
South Dakota 1955

Simple Interest Rate %	$200-12 Monthly Installments		$200-2 Semi-annual Installments		$1400-24 Monthly Installments		$1400-2 Annual Installments	
	No. Reporting	% of total reporting	No. Reporting	% of total reporting	No. Reporting	% of total reporting	No. Reporting	% of total reporting
4 and under	3	3.8	19	22.6	1	1.3	4	4.8
5 - 8	42	53.2	36	42.8	48	64.0	58	68.2
9 - 12	26	32.9	25	29.8	20	26.7	23	27.0
over 12	8	10.1	4	4.8	6	8.0	0	0.0
	79	100.0	84	100.0	75	100.0	85	100.0

the dealers when they were asked what rate of simple interest they were charging. This, along with the conflict in what dealers said they were charging and what they were actually charging, indicates uncertainty in the calculation of interest, or that dealers were reluctant to admit a high interest charge.

While some dealers calculate the interest charge, others use credit rate books put out by the finance company, bank, or implement company with which they are financing. It is difficult to calculate the actual interest being charged in these cases because some of them include insurance, filing fee and other charges made for the loan. None of the rate books stated the actual charge for insurance or filing fees. Table VIII shows only those dealers that calculated their own charges and those that used rate books where no other charges were included. Of the remaining dealers the rate varies from 9 to 12% simple interest.

Sixteen of the dealers interviewed said that machinery financing was not done by their local banks. These dealers were quite bitter about this because it seemed to them that banks would finance automobiles for people with little or no earning power, but would not take machinery paper. This condition was not apparent in Economic Area one, but was scattered throughout the eastern half of the state. There are several plausible reasons for this. Some of them are: credit standing of the dealer endorsing the paper, balance among loans by banks, the tendency of some farmers to borrow to the limit from their bank and then attempt borrowing elsewhere, and the feeling that many farmers are over-equipped.

Down Payment

The dealers were asked if the down payment was the same for all farmers. Fifty-nine answered yes, 41 answered no, and 7 didn't know. Of those dealers answering yes, the reason for charging the same down payment was because their customers were engaged in the same type of operation and that they were all reasonably well off. The dealers that did vary their down payment said it was due to the varying conditions of the farmers. They felt that some farmers were greater risks than others and they wanted to get as much as possible on the down payment.

Risk

Sixteen of the dealers felt that farmers that come to them to finance machinery are greater risks than those that obtain loans from banks. The amount of bad risks by dealers was very low ranging from 2 to 5% of total financed sales. These were accounts that were long overdue.

Thirty-nine of the dealers said that different types of farming made a difference as to the granting of a loan. They rated diversified and cattle farms as good risks, and straight grain farms as poor risks. However, cattle seem to be the determining factor in granting a loan.

Security

All of the dealers use a conditional sales contract and the only security is in the machine itself. Dealers said that banks usually require more security and often take cattle, land or autos for security.

Dealer Credit

Dealers obtain their credit from either banks or the implement company that they represent. Interest charges by the implement company are usually waived on new machinery for the first 90 days that a dealer has possession. After that time, if the dealer has not paid for them, the company usually charges 6% simple interest. Banks determine the interest rates on the ability of the dealer to manage his business and his financial condition.

CHAPTER IV

SALES TAX

The interview schedule used did not ask anything about taxes, but it soon developed that many dealers considered this to be one of their major problems. After this developed the interviewer systematically asked the remaining dealers about their tax problem and made marginal notations of their comments. (All interviews were conducted by the author.)

The general feeling against sales tax may be the result of several causes: general reluctance to pay tax and dissatisfaction with paper work involved in sales tax records. Also, farmers use the sales tax as a bargaining weapon. For example, many farmers will say of a certain purchase, "I'll take it if you take off the sales tax." This is not a problem of sales tax but rather one of bargaining. However, it does give many dealers a feeling of dissatisfaction with sales tax, for they must either reduce the price of the machine as much as the tax, or pay the tax outright.

Normally a machine sells for less than list price, which is another point that makes many dealers dissatisfied with the sales tax. Most of the dealers feel that sales tax should be paid on purchase price rather than list price.

Many dealers also made a complaint regarding sales tax on used machinery. The dealers felt that they were being treated unfairly by having to remit sales tax on certain used machinery.

Used Machinery Sales Tax

The used machinery sales tax has caused much confusion throughout the state. Many different interpretations by dealers have resulted in a very unfavorable attitude toward the tax. Dealers claim the state has failed to come out with a definite interpretation of the sales tax law for dealers to follow.

Some dealers follow the method whereby they charge sales tax for a machine the first and second time it is sold, while others charge sales tax the first and third time it is sold. One dealer said, "I never tell a farmer that I'm charging sales tax on used machinery because he would think I was crazy."

The Division of Taxation says, "Gross receipts from resale by retailers of used farm machinery, taken in trade or exchange on the sale of new farm machinery already taxed under the laws of this state," are exempt from sales tax.[12] Even though this section says that machines previously taxed and taken in trade are exempt, many dealers have been called on by the state for the collection of such tax.

In interpretations of the South Dakota tax laws prior to 1956, used machinery that was exempt from the retail sales tax was listed. This list failed to list several types of machines including grain elevators, manure loaders, hammer mills and all used electrical

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[12] South Dakota Department of Revenue, The Rules and Regulations Relating to Retail Occupational Sales Tax and Use Tax, Bulletin 55, Chapter 57.32, Section 57.3202, #7, January 1, 1956.

equipment. Five dealers, all large ones, said that prior to 1955 the tax on these items was not collected, but in 1955 these dealers were called on by the state and retroactive collection was made. Two of these dealers had to pay as high as $500 tax which they had never collected from farmers.

Rule #59 of the tax law in effect prior to January 1, 1956, stated that, "Used machinery, used for preparation, seeding, or cultivation of the soil for growing agricultural crops usually grown in South Dakota, the machinery used for harvesting, threshing and marketing of agricultural products, exclusive of motor vehicles used for such purposes that are required to be otherwise licensed," are exempt from sales tax when taken in trade for a new machine.[13] Grain elevators are without a doubt used for harvesting and marketing of agricultural products and manure loaders are used for preparation of the soil.

The new ruling in effect January 1, 1956, has the same wording as the old but fails to list machinery. However, dealers are still liable to pay the tax on used machinery which they sold prior to 1956.

The Director of the Division of Taxation said that when the law was first set up, certain machinery was used in custom work. It was intended that these machines would not be exempt from sales tax.[14]

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13 Retail Sales Act, South Dakota code of 1939.

14 W.R. Wilder, Director of Taxation, Division of Taxation, State of South Dakota, Pierre, South Dakota, Letter to Author, January 16, 1956.

However, it is difficult to account on this basis for the exemption of combines and the taxation of farm elevators.

The basic problem lies in the interpretation of the 1939 law. The interpretations have evidently varied in the period between 1939 and 1955. Dealers report varied interpretations have been used simultaneously by different tax collectors. This results in a situation where competing dealers have been in good faith charging tax on similar used machinery on different bases.

Farmers Purchase Out of State

Along the eastern and southern borders of the state, dealers are faced with the fact that farmers are purchasing machinery in Minnesota and Nebraska, because dealers feel that farmers are trying to avoid paying sales tax.

The state of South Dakota refunds gasoline tax for the gasoline that farmers use in their farm operations. The Gasoline Tax Refund Office has sent out questionnaires for the purpose of determining the amount of refund a farmer is to get. They included a question on this form as to the machinery purchased out of state. In the period from October 6, 1954, to June 1, 1955, farmers voluntarily submitted $10,550.26 as tax for machinery purchased out of state.[15] This was under a 2% sales tax rate, so machinery amounting to at least $527,513.00 was bought outside the state. There is no way of estimating how much more was brought in without payment of tax, but dealers believe it to be a large amount.

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15 Interview with Gasoline Tax Refund Office, July 19, 1955.

Dealers complain that they do not have a full opportunity to compete for this business. This involves not only the business on which no use tax was paid, but also that on which tax was paid only as a result of the Tax Refund Questionnaire.

Suggested Solutions

Because of the problems involved in the collection of the sales tax, 43 dealers suggested that the sales tax be collected by the court house like that of automobiles.

This could be done in one of two ways. First, all serial numbered machines could be licensed and the farmer would purchase his license from the court house. One license would be sufficient for the life of the machine. This would also eliminate charging sales tax on used machines that had previously been taxed when resold. Or, second, dealers could submit lists of all serial numbered machinery to the court houses, and the court house would charge the farmer for the tax and make collection.

These 43 dealers feel that this would enable them to compete with out of state dealers. They feel that it would also eliminate the problem of used machinery taxation.

Another possible solution is for the Department of Revenue to make a definite and clear cut interpretation of the South Dakota Sales Tax Law. In spite of the new regulations effective in 1956 there is apparently still considerable confusion for both dealers and tax collectors, according to recent check interviews.

CHAPTER V

SOUTH DAKOTA IMPLEMENT DEALERS ASSOCIATION

In 1896 the implement dealers of South Dakota formed the South Dakota Implement Dealers Association to render services to the trade. In 1900 the state association associated with the national association in order to perform greater service. Today the national organization has 33 state and regional organizations.[16]

The South Dakota Implement Dealers Association had a membership of 378 in 1955. The membership reached a peak in 1946 with 402 members.[17] Since that time the membership has been decreasing. Of the dealers interviewed there were 90 members using the association's services.

Services

Insurance

All Associations of Farm Equipment Dealers offer their dealers insurance coverage in the following fields: Fire, Theft, Public Liability, Plate Glass, Workmen's Compensation, and Group Accident & Health.

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16 Arch S. Merrifield, Farm Equipment Retailers Handbook, Farm Equipment Retailing Incorporated, St. Louis, Mo., 1953, Page 375.

17 Interview with George Batchelder, Secretary, S.D.I.D.A., July 1, 1955.

Management Aids

The state and national associations provide dealers with all the forms needed for an implement business. The forms are recommended but dealers may or may not use them. Most of the members interviewed did not use these forms but rather, used their own systems of inventory and accounting.

The state associations also sponsor management improvement clinics. In these clinics they study topics such as the sales planning program, bookkeeping and accounting systems, advertising, and cost of doing business.

The national association publishes annually a cost of doing business survey which compares the operational costs involved in various sized dealerships throughout the nation. It is a comparison made over the entire country and a dealer may compare his own operation with others in the United States.

The national association also publishes a used machinery guide. This guide is used by the dealers to establish a price for used machinery. The guide indicates the average price being paid for each implement in various lines throughout the nation.

Publications

Through the state associations the national association issues a monthly magazine.[18] This publication goes with membership and informs the dealers on new developments in machinery and management.

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[18] Farm Equipment Retailing Inc., Farm Equipment Retailing, St. Louis, Mo.

It also keeps dealers informed of what is happening on the national level of the organization.

In 1953 the national association published a handbook for dealers.[19] This publication is sold to dealers who want it and is not included in the membership. The book gives a complete analysis of the farm equipment business and tries to guide the dealers in management practices, advertising, sales, and the promotion of good community relations.

Lobbying

Lobbying is done by the Implement Dealers Association in both the national and state governments. The purpose of the lobbying is to present the views of dealers to the legislative bodies and to make an attempt to promote legislation favorable to the dealers or avert unfavorable legislation.

General Services

The state and national dealers associations give the dealers many other services too numerous to mention. Almost any problem that faces a dealer can be taken to the associations. These problems are discussed in local and state meetings. These problems are often solved by the dealers themselves and the association is but a means to get dealers together to discuss mutual problems.

Suggested Improvements for South Dakota Implement Dealers Association

Twelve members interviewed indicated that the association was

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[19] Merrifield, *op. cit.*

very inactive and not doing anything for the dealers. However, the rest of the members felt that, although its resources were limited, the association could be made to be a very useful organization. Some of the members' suggestions were criticisms and others were merely suggestions for improved service.

Personal Contacts

Only 73.3% of the members interviewed attended the association meetings at all, and these members attended only when the meeting was held close to home.

The dealers felt that if more personal contact was made among the dealers by the association secretary, there would be more interest developed and the dealers would be willing to travel a little farther for a meeting, thus improving attendance. More contact with dealers would also make them feel more welcome to, and a part of, the association.

Lobbying

Dealers indicated that the lobbying of the South Dakota Implement Dealers Association was very limited. They thought more lobbying should be done and dealers should be kept informed of the issues concerning them that are before the legislature. The sales tax problem is an example.

Price Cutting and Scalping

Many dealers feel that the association should combat price cutters and scalpers. Some dealers went so far as to say that legislative action should be taken to outlaw scalping in the state.

Others wish to combat the practice by economic means. In view of the low costs of these scalpers associated with lack of service, it appears doubtful that they can be eliminated by competition.

Credit Problem

Some dealers feel that the state association should try to induce banks to grant more machinery loans to farmers and dealers, and should also work on a solution to the open account credit problem.

The "Minnesota Plan" was presented to the dealers of South Dakota through the state association since the interviews were made, so they have presented a possible solution to open account credit.

Effect of State Association on Competition

In a situation of an over-expanded industry the temptation may easily arise to form a cartel-like association to reduce competition. There is, however, little indication that the South Dakota Implement Dealers Association is trying to do so or would be likely to succeed. Neither the used machinery guide nor the cost of doing business figures appear to have been interpreted by the dealers as pricing directives.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

In 1955 there were approximately 640 retail farm machinery dealers in South Dakota. The number of dealers expanded rapidly immediately following World War II. Presently, however, the number of dealers remaining in business is diminishing.

A limiting factor on gross sales of dealers is the number of farms per dealer. The machinery retail industry has expanded to a point where, in some areas at least, dealers are no longer able to maintain a break even level of income. This may be an indication that there will be more dealers closing out in the future. This probably also accounts for the dealers' complaints that the manufacturers are overloading the dealers with machinery.

The dealers in South Dakota are faced with many other problems. Credit, however, appears to be most serious. Dealers are having the most trouble with open account credit but have adopted the "Minnesota Plan," as a partial solution to this problem.

Loan credit is a problem in that some dealers are finding it increasingly difficult to obtain funds to finance some of their sales. Many banks have refused to write machinery paper. The result is that dealers have to go to finance companies which charge higher interest rates than banks. Thus the cost of machinery to the farmer is raised.

If dealers would charge a higher rate of interest than banks or finance companies, farmers should be more willing to obtain their own credit rather than have the dealer finance them. Farmers would be more willing to do this because when a farmer pays over 8% interest, which was the rate for more than 30% of the financed sales, it becomes a fairly large part of the total cost of the machine. Getting credit at a lower cost may be just as important in dollars and cents as getting a machine for a lower initial cost.

The tax problem could be solved if the Department of Taxation would present a clear and uniform interpretation of existing laws. It is possible that the South Dakota Implement Dealers Association could bring pressure to obtain an interpretation.

Budgeting and frequent audits would help many dealers. The study revealed that many dealers were lax in these practices and were not sure of their financial condition. These practices would allow dealers to watch their financial condition more closely.

Almost all of the implement dealers in South Dakota are multi-product firms. They depend on other sales as well as farm machinery sales for income.

Many established dealers complained of scalpers. The scalper provides only machinery and no service or repair parts. They are providing farmers with low cost machinery, but it is important for the farmer to consider very carefully if the lower price of the machine compensates service that an established firm is able to give.

Many problems of the dealers could conceivably be solved through the dealers associations. Through cooperation and discussion local problems may be worked out. Through formation of a countervailing power, a bargaining position with the manufacturer may be attained.

APPENDIX

Schedule used in Survey of Farm Machinery Dealers

CONFIDENTIAL

Name of firm________________________ Location_____________________

Interviewer _____________________ Person Interviewed ______________

Date______________________

I. Description of the Marketing Channel

1. What kinds of commodities do you sell?

Farm Machinery & Equip. ( ) Repair Parts ( )

Lines_____________

____

____

____

Autos and Trucks	( )	Petroleum Products	( )
Lumber & Building Supplies	( )	Seed	( )
Fertilizer	( )	Other Supplies	( )

____

2. Who is your most important source of:

Farm machinery ____

Fertilizer ____

3. When was this firm originated? ________________________________

4. How many ownerships have there been since then? ________________

5. Why did they quit? ____

____

6. When did you acquire this business? ____________________________

7. What is the radius of your trade area? ________miles.

8. What type of franchise do you have with manufacturers or distributors?

____

____

What are the bargaining points of your contract with manufacturer?

____

____

9. Would you prefer a five year franchise to a one year franchise? ___ ______ Why or why not? _______________________________________

____

10. Would you like to see a dealers council established similar to that of the auto dealers? Yes ____ No ____ If yes, what problems would you put before it? ____

____

____

____

11. Do you know of any equipment companies establishing their own retail outlets? Yes ____ No ____ If yes, do you feel this is a threat to the independent dealer? ____________________

____

____

____

12. What farm machinery dealer do you consider to be your strongest competitor? ________________________________

Your own line dealers ( ) Why? ____________________

____

Other dealers? ( ) Specify ____________________

____

13. Are you on friendly terms with your competitors? __________

Describe ________________________________

____

14. Have you ever discussed the prices you have paid for used machinery with these dealers? Yes ____ No ____ Describe __________

____

15. Have you ever discussed the prices you are going to pay for used machinery with these dealers? Yes ____ No ____ Describe ______

____

16. How often do you take an inventory?

Monthly	( )	Semi Annually	( )
Quarterly	( )	Annually	( )

17. How often do you have your books audited.

Monthly	( )	Semi Annually	( )
Quarterly	( )	Annually	( )

18. How large an inventory of used machinery are you carrying at the present time? $__________

Six months ago $__________

One year ago $__________

19. Have you made any major additions to your buildings in the last 10 years? Yes ____ No ____ Describe ____________________

____

20. Does the company you buy machinery from have any basic requirements for buildings for their dealers? ____________________
____
____

21. (If yes to 20) are these requirements difficult to meet? Yes ___ No___ ____________________________________

22. Are any of these requirements ones that you would like to see changed? Yes ____ No ____ If yes, describe ______________
____
____

23. Do you belong to the S. D. Imp. Dealers Assoc? Yes ___ No ___

24. If yes, do you attend their annual meetings? Yes ___ No ___

25. Do you think the Association is doing an effective job? Yes____ No___ Comments ______________________________
____
____

26. Is there anything that you feel the Association should be doing that it is not doing? ______________________________
____

27. Is there anything the Association is doing that you feel it should not? ____
____

28. Do you have a method of determining what machinery a farmer needs and then selling him on that type ( ) or do you sell the farmer what he wants ( )

29. How much fertilizer did you sell last year? ______________ Ton.

30. What kinds of fertilizer do you sell? ____________________

____________________	____________________
____________________	____________________
____________________	____________________

31. How much fertilizer did you sell 5 years ago? __________Ton.

32. Do you feel the fertilizer market is expanding? Yes ___ No ___ Comments________________________________
____

33. Do you have a method of determining what type of fertilizer a farmer needs? Yes ___ No ___ Method________________________
____

34. What percentage of your gross sales in 1954 were derived from the sale of-

New Farm Machinery & Equip. ____% Repair Parts ____%
Used Farm Mach. & Equip. ____% Fertilizer ____%

35. What percentage of your net income in 1954 was derived from the sale of:

New Farm Machinery & Equip. ____% Repair Parts ____%
Used Farm Mach. & Equip. ____% Fertilizer ____%

36. What were your gross sales last year?

0 - $100,000 ( ) $250,000 - $500,000 ( )
$100,000 - $250,000 ( ) Over $500,000 ( )

II. The Role of Credit in the Farm Equipment Business

1. What percent of your sales are on a cash basis ________%

2. For these farmers who buy machinery on time, how do they finance their purchases?

   Finance Companies ________%
   Banks ________%
   Implement Companies ________%
   Your own Company ________%
   Other ________%

3. What down payment is required on machinery by--

   Finance Companies ________%
   Banks ________%
   Implement Companies ________%
   Your own Company ________%
   Other ________%

4. Is this the same for all farmers? Yes ___ No ___
   If no, how does it vary? ______________________________
   ____
   ____

5. Are those farmers who finance directly with you, higher risks?
   Yes ___ No ___

6. What security is needed for a machinery loan? ______________
   ____
   ____

7. What is your percentage of bad risks? ________%

8. How many are turned down because of poor credit rating? ______
   ____

9. Does the type of farming have an effect on the financing of implements? Yes ___ No ___ If yes, which types are good risks?
   ____
   bad risks? ____

10. What rate of interest do you charge for financing farm machinery?
_________%

11. Suppose I were to buy a $300 piece of machinery and made a down-payment of $100. If I wanted to pay it off in a year's time in monthly installments, how much would those installments be?
$__________
    a. Does this include insurance? Yes ____ No ____
    b. If yes, how much does it cost? $____________
    c. Does it include any other charges? Yes ____ No ____
       If yes, specify ____
       ____

12. Suppose I were to buy a $300 piece of machinery and made a down-payment of $100. If I wanted to pay it off in a year's time in two installments, how much would these installments be? $ ______
    a. Does this include insurance? Yes ____ No ____
    b. If yes, how much does it cost? $__________
    c. Does this include any other charges? Yes ____ No ____
       If yes, specify____
       ____

13. Suppose I were to buy a $2100 piece of machinery and made a down-payment of $700. If I wanted to pay it off in two year's time in monthly installments, how much would these installments be?
$__________
    a. Does this include insurance? Yes _____ No ____
    b. If yes, how much does it cost $_________
    c. Does it include any other charges? Yes ____ No ____
       If yes, specify ____
       ____

14. Suppose I were to buy a $2100 piece of machinery and made a down-payment of $700. If I wanted to pay it off in two year's time in two installments, how much would these installments be? $______
    a. Does this include insurance? Yes _____ No ____
    b. If yes, how much does it cost? $____________
    c. Does it include any other charges? Yes _____ No _____
       If yes, specify ____
       ____

III. <u>Blockmen and their Job</u>

1. How often does the blockman visit your firm? _____________
2. How would you describe his principal duties? _____________
3. What do blockmen do to make your job of selling machinery easier for you? ____
____

4. What do blockmen do to make your job of selling machinery more difficult for you? ______________________________
____

5. Do the blockmen ever visit your customers? Yes ___ No ___

6. If yes, what do blockmen do when they make these visits? ______
____
____

7. Do blockmen ever go out and sell machinery for you? ________
____

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